(b) That the long distance sales force receive any list of the BOC's wireless customers on the same terms, and at the same time, as that list is received by competing interexchange carriers. The Department anticipates that a BOC cellular carrier will at regular intervals provide all long distance carriers with listings identifying the names, addresses and telephone numbers of all cellular subscribers, regardless of the distribution channel through which the subscriber was retained. It is a condition to the BOCs' direct marketing of cellular long distance that this information be made available to all competing interexchange carriers.

(c) That the long distance sales force must advise actual or prospective subscribers of their right to presubscribe to competing interexchange carriers.

(d) That the long distance sales force not receive any information about the identity of the BOC's wireless customers' interexchange carrier or the wireless customer's cellular or long distance usage, unless the customer is already a customer of the BOC's interexchange service.

(e) That the long distance sales force be a distinct group of individuals, with separate managers, from any sales force that sells the products or services of any Bell Operating telephone company.

(2) The Department understands that the marketing restrictions applicable to "existing customers" (as specified in your letter of November 12, 1993) apply not only to customers existing as of the date of any Order, but also to persons who become customers of the BOC wireless service thereafter. When such persons become customers, marketing of long distance service to such persons are subject to the provisions on "marketing restrictions: new customers"; after such persons become customers, they are subject to the provisions on "marketing restrictions: existing customers." The Department conditions its support of this waiver on this understanding, and on the further condition that the BOC personnel marketing long distance services not receive wireless customer names, addresses and telephone numbers until that information is also available to competing interexchange carriers.

(3) The Department conditions its support for a waiver on the requirement that, if the BOC or its wireless affiliate bills its long distance customers for that service in the same billing as for its wireless exchange service, it make that billing arrangement available to competing interexchange carriers on reasonable and nondiscriminatory terms. It is the Department's understanding that most BOCs currently make such billing arrangements available to interexchange carriers; if this relief is granted, the Department believes that the BOCs should not be permitted not terminate those arrangements for competing carriers.

(4) The Department opposes any authority pursuant to which the BOC might discriminate in the provision of interexchange routing or in the colocation of interexchange points of presence in cellular MTSOs.

(5) The Department believes that the BOCs should be required to notify competing interexchange providers of changes to existing network services or the addition of new services that affect the interexchange carriers' interconnection at least 60 days prior to implementation.

(6) The Department does not understand the Proposed Order to permit a BOC to treat its long distance service as the default carrier for a customer that fails to make the required selection of an interexchange carrier. The Department understands that customers who fail to select an interexchange carrier will not receive interexchange service from their wireless telephones, and conditions its support for the waiver on that understanding.

Finally, we believe that in this instance it is appropriate to condition the continued provision of interexchange service on compliance with the equal access conditions and requirements of this waiver and of the MFJ. We also believe that the waiver order should grant the Court the authority to impose civil fines, not to exceed $10 million, for violations of equal access conditions and requirements of this waiver or of the MFJ in the provision of interexchange services from wireless exchanges.

II. Paging, etc. The Department intends to support the relief specified in Section II of the Proposed Order, subject to the following clarifications:

a. That the "IS-41 or comparable" functions specified in paragraph II(a) not be used to discriminate in favor of the BOC's own interexchange service.

b. That the default traffic specified in paragraph II(c) be explicitly limited to interexchange telecommunications initiated by roaming customers.

III. Local Calling Areas. The Department believes that this issue should not be presented to the Court at this time and, if presented, intends in the absence of further developments to urge the Court to defer ruling on this issue. On June 9, 1994, the Federal Communications Commission announced the issuance of a Notice of Proposed Rule Making and Notice of Inquiry, pursuant to which the Commission indicated that it has tentatively concluded that imposing equal access obligations on cellular telephone companies would be in the public interest. The text of the Notice is not yet available to the public or to the Department.

The Department understands that any such equal access obligation necessarily requires the adoption of a map defining local calling areas and delimiting the respective areas of local and long distance service. Therefore, if the Commission acts in accord with its tentative decision, it will need to consider the appropriate local calling areas for cellular service, the issue raised by this portion of the BOCs' proposal. The FCC's conclusions may result in the imposition by regulation of a local calling area map that is different from either (1) the current cellular calling areas, as defined by the MFJ and subsequent orders, and (2) the relief the BOCs seek here. Given the possibility of inconsistent results, it would not be productive for the Court to consider a comprehensive redefinition of local calling areas at the same time that the FCC is considering the same issue. If the FCC does not adopt a final rule on cellular equal access, the Court may then consider whether it wants to make substantial changes to the cellular equal access map. The Department will, during the pendency of the FCC proceeding, evaluate pending calling area waiver requests to determine whether they meet the standards for such relief.

IV. FCC Preemption The Department does not support the relief sought in Section IV of the Proposed Order. If the FCC adopts an equal access order that reasonably achieves the purposes of the Decree, including equal access, but differs in some technical respects in its implementation of those purposes, it may be appropriate for the Department and the Court to consider whether it is necessary or wise to maintain two sets of equal access obligations. However, it would in our view be inappropriate to make that determination before the Commission adopts a final rule on this subject.

Sincerely,

Richard L. Rosen

Richard L. Rosen
Chief
Communications & Finance Section

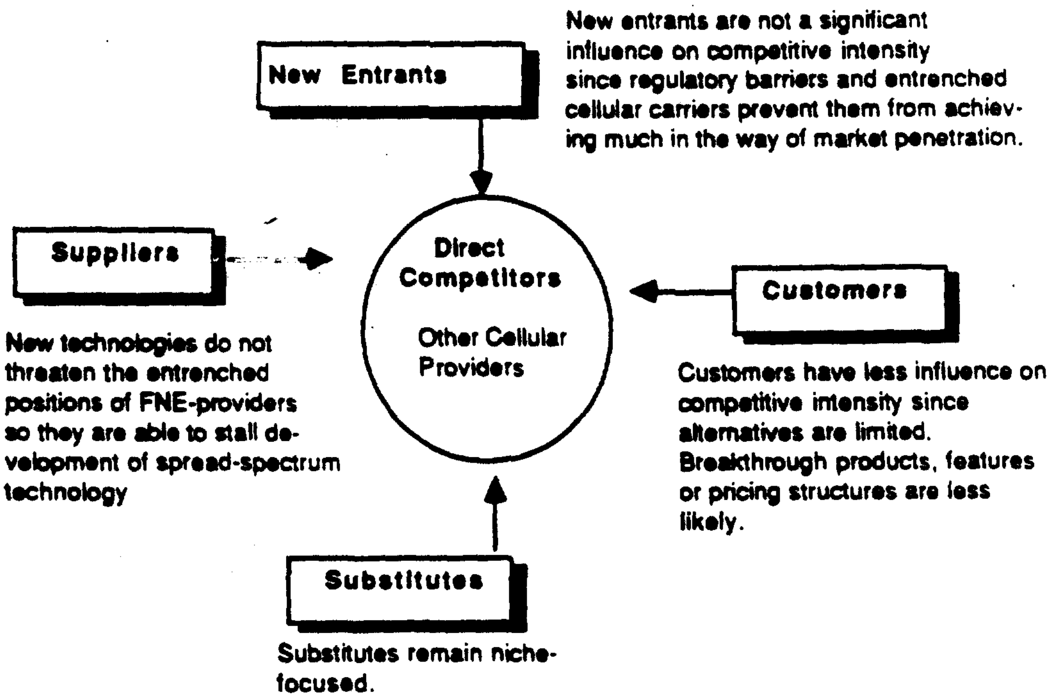
EXHIBIT 2

FUTURE COMPETITIVE ENVIRONMENT (MID '90'S AND BEYOND)

Based on the environmental trends described in previous sections, there are three basic ways in which industry structure may evolve in the mid '90's. They are: a continued duopoly structure; a multi-competitor structure; and a multi-compet tor structure in which competitive intensity develops rapidly. Each of these potential environments will be described using the Porter framework.

Duopoly Structure
The duopoly structure is a continuation of the status-quo. Recent valuations of cellular properties among industry analysts are most likely based on an assumption that today's cellular duopoly market structure will continue indefinitely.

Duopoly Structure 1995



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Under this scenario competitive intensity is greatly reduced. This enables direct cellular competitors to improve margins, trading flexibility for improved operating efficiency. In fact, the most significant element of this structure is the probability that profit margins for all competitors would tend to increase under prolonged restricted competition.

The duopoly view sustains high growth through the mid-'90's. But it should tend to level out a little sooner than if there were multiple competitors seeking to buy market share. This view represents the current wisdom among many investment analysts and, until recently, it was the prevailing view of the Ameritech management team.

EXHIBIT 3

Profitability:

The burgeoning demand for cellular service when coupled with the duopolistic market structure mandated by the FCC has led most investment analysts to conclude that the cellular industry will be even more profitable than cable TV, to which comparisons are constantly made. This has been the impetus for the spate of acquisitions occuring during the past two years.

While BAMS believes that providing quality cellular service requires considerably more investment in the infrastructure of the business, (e.g., network capital, customer service, collections, and billing) than does cable, it must be acknowleged that the investment community has been generally correct in forecasts of thriving cellular revenues. It is also important to note that increased market penetration in the absence of downward price pressures will buy a lot of infrastructure. On the other hand, for reasons that will be discussed in detail later in this plan, BAMS believes the investment community is using a false anology to conclude that the average cellular service company should generate 60% cash flow margins in the future. To keep things in perspective, a 40% cash flow margin in such a rapidly growing business is quite extraordinary and already implies tremendous price/earnings multiples.

During 1987 several carriers reached operational break-even and some have begun to realize substantial profitability. Of the leading cellular carriers, BAMS and Lin Broadcasting appear to be the most profitable currently, in terms of both size and quality of earnings, due partly to the fact that their markets are among the largest and most demographically attractive and have been on-line for several years. Other companies, such as Pactel, McCaw, and Southwestern Bell are larger and may have more absolute profit potential in the long-run, but their results thus have been negatively impacted by acquisitions and start-up costs. There are two smaller nonwireline companies, Metro Mobile CTS and Cellular Communications, Inc. (CCI), who have attractive regional clusters capable of producing high quality earnings in the future.

Because of differences in the capital structures of these companies, it is easy to draw spurious financial comparisons. One measure of profitability, operating income as a percent of revenues is fairly indicative of financial performance and has been publicly disclosed by several companies. The table on the next page presents a comparison of operating results those major cellular service companies whose results have been made publicly available.

1. **MS Vision:**
BAMS will be the best provider of wireless services worldwide. We will deliver the highest quality information age products and services to meet customer needs. We will be the carrier of choice of customers in our markets. We will be recognized as the market leader by customers, industry leaders and the communities we serve

2. **Customer Requirements:**
- Convenience
- Quality of service comparable to landline
- Large business requires a high level of sales and service support, broad product line, and price discounts
- An alternative to landline for people on the move
- Affordability and coverage for personal use
- User friendly equipment & services (easy to use)

3. **Industry Outlook:**
- High customer growth rates through end of decade; consumer market will be a key source of growth.
- Bullish profitability outlook; Pretax margins expected to be 40% by 2000
- Highly concentrated industry; six companies control 67% of potential market
- Government policies favor increased competition within the industry and with local exchange carriers; new spectrum will be made available in 1993-94 to implement pro-competitive policies.
- Competitive factors currently favorable; will be less favorable as new spectrum licenses are awarded due to potential for industry overcapacity and price cutting

. **Opportunities:**
- Development of existing BAMS\BAMM markets provides [redacted] revenue opportunity (all providers) by 2000; wireless data and information services comprise $1 - 1.5B of this revenue.
- New RSA licenses have potential to increase revenue by $100M/million pops by 2000.
- Wireless service provides a platform for expansion into related communications markets out of region; BAMS could become the prototype 21st century telephone company.

Threats:
- Entry of strong, aggressive new competitors in 1994-95, could result in industry overcapacity, price cutting and margin pressures
- Wireless data market could be preempted by specialized wireless data carriers.
- BAMS wireless services are difficult to differentiate from those offered by competitors; potential for significant customer churn and high marketing costs
- Cable TV or alternative access companies with PCS licenses well positioned to target high growth consumer market

6. **Strategic Imperatives:**
- Grow customer base rapidly
- Develop/enhance new revenues opportunities
- Transition to fully digital network
- Create a national seamless network
- Build a brand identity
- Aggressively pursue PCS to achieve first mover advantage
- Capitalize on growing wireless data market
- Continue to expand through acquisitions and alliances
- Remove regulatory and legal constraints
- Reduce cost structure to ensure competitiveness

7. **Required Core Competencies:**
- Radio engineering
- Network systems engineering
- Marketing
- Competitive decision making

8. **Strengths:**
- Committed management team with full support of Bell Atlantic
- Economies of scale - 5th largest cellular carrier
- Emerging industry leader
- Direct sales channels in region
- Clustered properties
- High degree of wireless experience

9. **Weaknesses:**
- MFJ and regulatory restrictions
- Recent customer growth below industry average
- Network quality in certain markets
- Low market share in Southwest Region; weak competitive position in paging market

10. **Strategies:**
- Optimize networks to improve service performance
- Invest more in marketing; market more aggressively
- Develop new revenue opportunities: data communications, expanded paging line, information services
- Form alliances to achieve national scope and scale economies
- Use economies of scale to reduce cost structure
- Expand geographic markets through acquisitions, ventures and new frequency license awards

EXHIBIT 4

B. INDUSTRY OVERVIEW

o CELLULAR INDUSTRY

Unusually Attractive Structural Characteristics

- Government-mandated duopoly providing very high barriers to entry
- Essentially unregulated with regard to rates and rate of return
- Technology likely to provide decreasing marginal costs (capital and operating)
- Very low threat of substitute services
- Low bargaining power by both suppliers and customers
- Distribution channels need to be managed and diversified to assure exclusivity and minimize the power of Agents and Dealers
- Overall competitive rivalry is low to moderate

o PAGING INDUSTRY

Reasonably Attractive Structural Characteristics

- Technology likely to provide decreasing marginal costs over time
- Barriers to entry are low to moderate
- Low bargaining power by suppliers
- Moderate but increasing bargaining power by customers
- Limited threat of substitute services
- Some opportunity to differentiate on system performance and responsiveness to customer needs
- Overall competition rivalry is moderate

D. COMPETITIVE POSITION

CELLULAR

- Competition currently low to moderate but increasing
- To-date little competition on service pricing
- System operators compete for new customers through equipment discounting and commission rates
- Significant early competition on system performance (coverage and quality) - ability to differentiate on system performance likely to erode over time
- Adjacent market extensions beginning to create potential for differentiation - may be mitigated by roaming agreements
- Evolution of distribution channels critical to optimizing penetration rate and minimizing power of Agents and Dealers.

Agents + Dealers

↓

Agents + Dealers + Key Account Reps + Direct Sales + Retail

PAGING

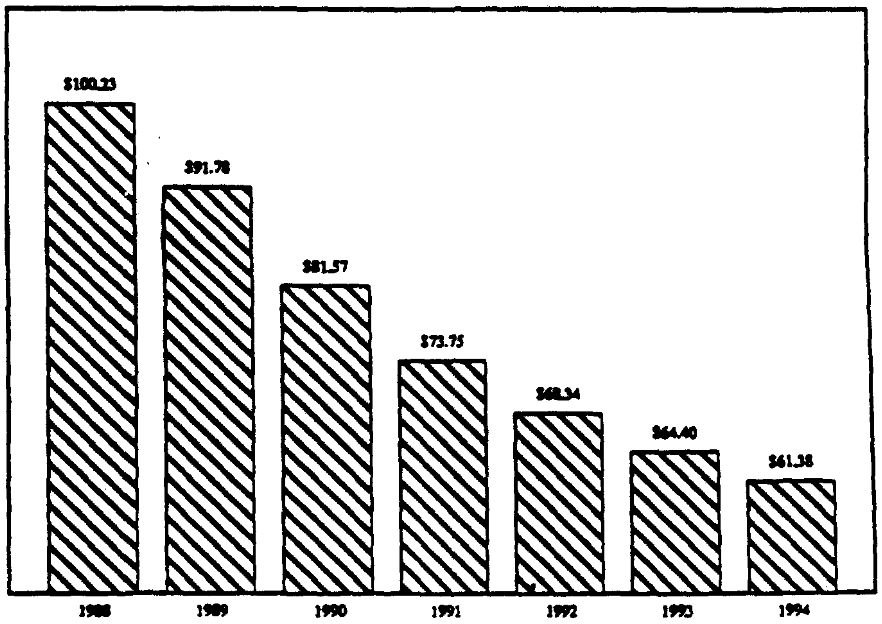
- Competition currently moderate and increasing
- Deregulation of market entry has brought many new entrants
- New entrants have focused heavily on price competition to gain share
- Market share strategy of new entrants appears to be a precursor to sell-out to the more committed firms
- Competitive intensity may recede to a more moderate level once shakeout occurs

EXHIBIT 5

SBMS' subscriber revenue has grown from $237.4M in 1988 to $501.5M in 1990 which is an increase of $264.1M or 111%. Due to the expected growth in customers, subscriber revenue will continue to grow reaching $1,224M by 1994.

Although subscriber revenue is expected to grow throughout the business plan, subscriber revenue on a per customer basis is expected to decline. Historically, subscriber revenue per customer has declined about 9.8% annually since 1988. The table below reflects this change as well as SBMS' forecast through 1994:

AVERAGE SUBSCRIBER REVENUE PER CUSTOMER



SUBJECT TO CLAIM OF PROTECTION UNDER RULE 26(c) (7) OF THE FEDERAL RULES OF CIVIL PROCEDURE

SUBJECT TO F.O.I.A. EXEMPTIONS 3 AND 4

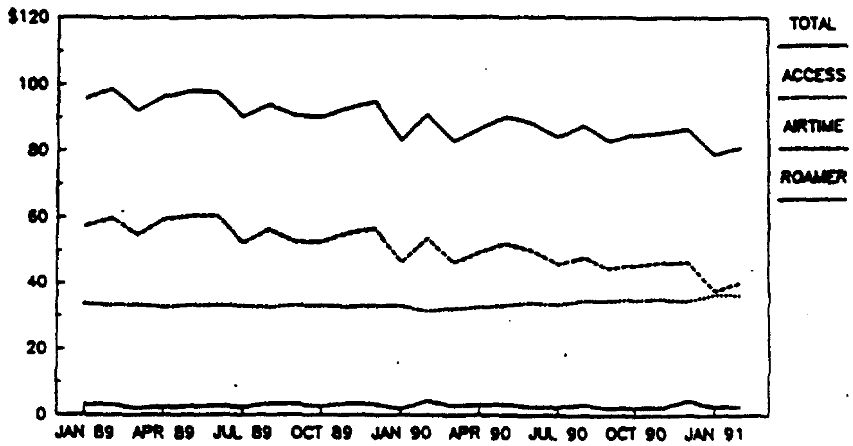
The decline in subscriber revenue per customer is primarily a reflection of the changing customer base. The early subscribers were primarily high income business customers who use their phones daily. As the penetration levels have grown, the new customers have become those with moderate needs for cellular service. With cellular sets now selling for less than $100, a new customer has emerged. This customer buys a cellular phone for occasional and security use and spends nearly $20 a month less than the average customer.

Subscriber revenue per customer is obviously influenced the most by customer usage; however, SBMS has learned over the years that there are a number of other factors which can effect subscriber revenue per customer (SRPC). These include the following:

- Price per minute
- Monthly access charge
- Features (Call Waiting, 3-Way calling, Call Forwarding, voice mail, detailed airtime billing)
- Billing increment
- Peak hours
- Roaming rates
- Activation or suspend charges

The graph shown below depicts SRPC for the Dallas market segregated into the major components of SRPC:

AVERAGE REVENUE PER CUSTOMER ANALYSIS
DALLAS



As the graph indicates the airtime portion of SRPC has declined sharply, however total SRPC has not declined proportionately due to increases in the monthly access charges per customer and slightly higher roaming per customer.

SBMS has been aggressively changing elements of subscriber revenue to mitigate the effect of lower customer usage. Virtually every SBMS market has increased monthly access charges in the last two years. Billing increments have moved from the 1987 level of 100% of the base on 30-second increments to the current level of 93% of the base on full-minute rounding. SBMS has also adjusted the hours by eliminating "night hours" and extending peak hours in many of the markets. Features, detail air, and voice mail have been actively marketed and now represent $3.24 a month per customer.

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SUBJECT TO F.O.I.A. EXEMPTIONS 3 AND 4

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In addition, SBMS has made substantial changes in rate plan packaging to reduce the effect of lower customer usage. Our revenue studies indicate that SBMS has a high percentage of low usage customers, and in response we have structured rate plans with minimum bill requirements. This structure results in the low end customer paying the highest price per minute as shown below:

Per Minute Charge

	Economy	Basic
Minutes	15	240
Bill amount	$21.15	$103.20
$ per minute	$ 1.41	$ 0.43

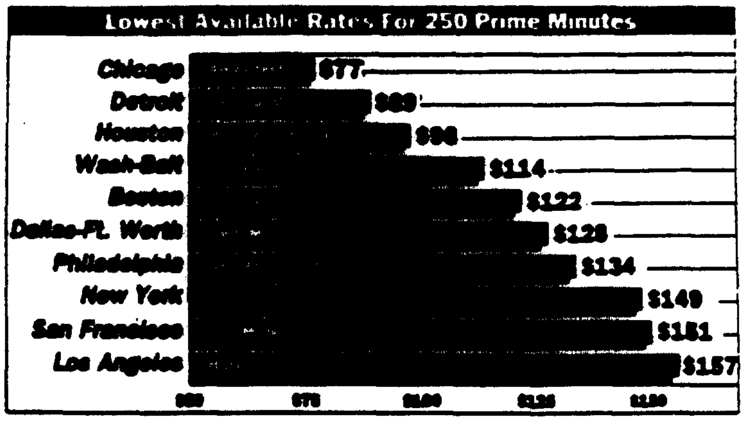
Free off-peak has proven to be an attractive option to customers. Because of this, SBMS only offers this option on rate plans with premiums built into the monthly access charge.

Overall, SBMS has implemented a multitude of changes in rates to help offset the decline in customer usage. As for the future, there is very little remaining to change except the published per minute rate. SBMS currently believes the market would not bear an increase to the published rates without substantial churn and other negative effects. Roaming rates have increased periodically, however, roaming only represents 4.9% of our average SRPC. Roaming rates are easier to increase than base rates, because we're not effecting "home" customers. SBMS does not have a <u>single</u>

plan for the group to generate greater subscriber revenue, but rather eight plans representing the various markets. Listed in the pages that follow is a brief history of each market, and the opportunities of the future.

CHICAGO

The Chicago market has probably the lowest rates of all the major markets. A recent Herschel Shoesteck study indicated rates by market as follows:



As the above indicates, Chicago has the lowest rates in the country. Monthly access charges for the basic plan have been $15 with peak rates of $.34 per minute and off peak of $.20 per minute. Overall, Cellular One's rates are below Ameritech's. Chicago's rate structure is somewhat unique when compared to most SBMS markets. Most markets have plans which serve a low, middle, and high usage customer. Chicago has the basic plan (middle user) and then several package plans. The package plans have a higher monthly commitment and include a certain amount of minutes, but the minutes are discounted from the basic plan. Chicago

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actively promotes plans and as a result, traditionally has had one of the highest revenue per customer averages among our properties. (Chicago also has one of the highest usage per customer averages.)

Chicago has made a number of changes to improve subscriber revenue. These include:

- November 1987 - Changed prime hours from 8am to 8pm to 7am to 9pm
- March 1990 - Began charging for "Ring Time"
- November 1990 - Introduced expanded voice mail and other feature charges
- December 1990 - Increased foreign Roamer rates from $.50 a minute to $2.00 a day and $.75 per minute
- May 1991 - Increased basic monthly access charge to $19.95. This impacts about 40% of the base.

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For the future, with rates in general being so low, it is our intent to continue to increase rates. Chicago currently does not have a free off peak plan. SBMS is currently reviewing introducing such a plan, but instead of unlimited off-peak there would be a modest charge for off-peak (say 4¢ a min.). We are also evaluating charging customers for the Telco interconnection fees associated with their usage. With Chicago's high usage, this would have a substantial impact.

BOSTON

Boston rates have historically been relatively low for a market its size. The monthly access charge is $29.00 a month which is low for the northeast. (New York $55.00, Philadelphia $52.00, Washington, D.C. $39.95). Per minute charges on the other hand are relatively high on a national level ($.44 peak, $.29 off peak) but about normal for the northeast region. In addition to the per minute rates, Boston charges the customer the local Telco interconnection charge as a separate item. Boston rates generally are below Nynex's primarily due to the billing increment. Boston historically had billed customers on 6-second increments up to the first 2 minutes.

Over the past few years, Boston has initiated several key rate changes to improve subscriber revenue per customer. The changes include the following:

- July 1989 - Roamer surcharge introduced
- April 1990 - Changed the billing increment from the 6-second rounding to full minute
- July 1990 - Introduced a free off peak plan with a premium monthly access charge
- June 1991 - Increased foreign roamer rates 32%
- June 1991 - Raised monthly access charge $2.00. This change affects 90% of the base.

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For the most part, the changes have been implemented with very little disruption to the market. However, at this writing, while we are implementing a rate increase in June 1991, Nynex has filed a tariff which would lower rates and price their plans below ours across the board. Their actions seem illogical and appear to contradict the steps needed to offset declining customer usage. SBMS is closely monitoring this situation.

As for the future, SBMS believes there are other opportunities to increase rates in Boston, somewhat dependent on our competitor. Boston provides call detail at no charge and will in all likelihood start charging customers in the near future. With monthly access charges relatively low, SBMS will continue efforts to move this fixed charge upward.

WASHINGTON/BALTIMORE

The Washington/Baltimore property historically has had the highest subscriber revenue per customer of all the SBMS properties. This is primarily due to the property's demographics (highest income per capita, heavy government usage, commuter city, etc.) and the relatively high rates when compared to the rest of the nation. Washington/Baltimore was one of the last SBMS properties to fall below the $100 a month average subscriber revenue. In recent years Washington/Baltimore's subscriber revenue per customer has fallen precipitously. One major contributor was the introduction of Plan F, a plan designed to add new customers quickly. Although the plan resulted in a large addition of customers, it was priced so inexpensively (an average subscriber revenue of $28 a month) that it drove the Washington/Baltimore average downward. Plan F has been subsequently stopped. Despite the obvious failure of Plan F, Washington/Baltimore has introduced a number of changes to improve subscriber revenue per customer. These include the following:

- Changed the billing increment to full minute rounding
- Increased roaming rates
- Changed the billing increment to full-minute rounding
- Increased roaming rates (7am-7pm, etc.)
- Changed peak hours from 7am-7pm to 7am-9pm
- Established an unlimited off-peak plan with a premium access charge
- Began billing for features
- Increased access charges on low end plans

Washington/Baltimore's future changes will focus on gradually increasing rates. This will be accomplished mostly through higher access charges and possibly increased per minute rates. Washington/Baltimore's network has had major problems, and the system conversion planned at the end of 1991 will probably increase usage due to customers having fewer dropped calls and being able to place calls more reliably. Once customer confidence is restored, SBMS feels customers will pick up their phone more often.

DALLAS

Dallas subscriber revenue per customer has always been good for a large market. Referencing the earlier study, Dallas is about average for a large market. Dallas' plan structure has for the most part followed the traditional three-tier plan. In other words, economy plans had low access/high per minute fees while high user plans had high access fees but included a certain number of minutes and lower per minute charges for additional usage. Corporate rates were introduced in November of 1987. Initially, all customers were billed in 30-second increments. Dallas was one of the first markets to require contracts of one year or more which has had a dramatic effect on reducing churn.

Over the last couple of years, the Dallas property has been the SBMS leader in implementing changes to improve subscriber revenue. Subscriber revenue per customer has declined 13.8% since 1988 while peak minute usage per customer has dropped 24%. Major factors contributing to this performance are as follows:

- Changed from 30 second to full minute billing increments
- Raised access charges on economy and basic plans
- Introduced "free off-peak" which initially resulted in higher peak usage. Once established, eliminated the offering from low-end plans.
- Increased foreign roamer rates
- Lowered commission rate on economy plans

Dallas also has increased activation fees, voice mail rates, and other miscellaneous charges. Because Dallas has been the leader in revenue changes, there are not many new options available other than selectively continuing to increase many of the same items previously discussed. Like Chicago, Dallas is also reviewing charging customers the interconnection fees charged by the Telco associated with customer usage. In Dallas, this could be as much as $.02 a minute, which would be a significant boost to subscriber revenue.

ST. LOUIS

The St. Louis market has traditionally had a large percent of customers on the economy plan. Subscriber revenue per customer has been relatively low for a market its size. Average subscriber revenue per customer has been below $100 since 1986. However, since 1986, St. Louis subscriber revenue per customer has not been declining as fast as the industry. This is due in large part to the following:

- December 1987 - Eliminated night rates
- September 1988 - Offered unlimited off peak for a $10.00 additional charge. Average off peak paid usage was less than $5.00
- July 1990 - Raised billing increment from 30 second to one minute
- November 1990 - Increased access charges on all economy plans or required a minimum usage
- June 1991 - Increased access charges on the basic and other plans

St. Louis, like most of the SBMS markets, has taken a number of steps to improve subscriber revenue. One of the immediate action items for this market is to begin limiting the free off-peak usage. Although in general this program has generated substantial revenue, it has now been so successful that off-peak usage exceeds peak usage. St. Louis, like the other markets, is also reviewing charging customers the interconnection fee for their usage. This issue may be extremely sensitive in this market due to Southwestern Bell's presence in St. Louis.

OKLAHOMA CITY

Oklahoma City's average subscriber revenue per customer has shown one of the steadiest trends in recent years. As indicated by the following table, subscriber revenue per customer has remained relatively flat since January 1989.

AVERAGE REVENUE PER CUSTOMER ANALYSIS
OKLAHOMA CITY